

ORIGINAL



0000119908

RECEIVED

2010 NOV - 9 P 4:37



November 9, 2010

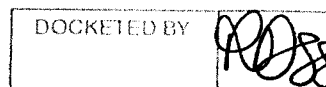
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

NOV - 9 2010

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007



**RE: 2011 REST Implementation Plans; Request for Additional Information in
Advance of November Workshop; Docket Nos. E-01345A-10-0262; E-01345A-10-0166**

Dear Commissioners:

On behalf of Mainstream Energy Corp., REC Solar, Inc., and AEE Solar, Inc., I appreciate the opportunity to provide comments regarding the correspondence sent October 21, 2010 by Chairman Mayes to those entities which have submitted 2011 Renewable Energy Standard and Tariff (REST) Implementation Plans.

Mainstream Energy Corp. is the parent company of REC Solar, an industry-leading solar provider specializing in grid-tied residential and commercial installations, and AEE Solar, one of the country's largest distributors of renewable energy systems and equipment. With a local presence in all major solar markets and millions of watts installed, REC Solar and AEE Solar are committed to lowering the cost of clean solar energy through efficient processes, innovative products and outstanding customer service. Together, our companies currently employ more than 550 people, and are committed to a robust and sustainable solar market in Arizona and throughout the nation.

Our companies sincerely appreciate the efforts being made by utilities and members of the ACC to keep Arizona at the cutting edge of solar market innovation. The aforementioned correspondence demonstrates a sincere and abiding concern for the viability of existing programs and continued innovation. With that said, we hope the following perspectives are able to assist in furthering these efforts.

Residential Distributed Energy Programs

APS has proposed a step-down for its residential solar program in which the rebate shall decrease by a specified amount each time 1,200 applications (the estimated equivalent of 8MW) are reserved. These declining incentive tranches are of course a common feature found in renewable energy incentive programs in many states and nations, and effectively serve to drive consumer demand, create downward pressure on installed system costs, and reduce or maintain constant levels of subsidy as installed costs are reduced.

Chairman Mayes' letter asks specifically whether a single- or multiple-variable trigger would be most appropriate. Generally, most programs use a simple installed-capacity metric as the trigger for the incentive step-down, rather than also accounting for other factors (i.e. system cost, payback, or the status of federal tax credits). Incorporating additional variables in the step-down determination may likely make it very difficult for consumers and others to predict when incentive levels will decrease, and as such we encourage APS to use a single-variable trigger.

With that said, we are extremely concerned that in APS' proposal as incentive step-downs are triggered and the residential incentive declines, the number of systems to be installed at each incentive step remains fixed. This is not conducive to the continued growth of the residential solar sector. Providing a declining-scale incentive without also expanding the number of systems at each step which may receive these reduced incentives is a formula for maintenance, at best, of the current size and condition of the residential solar industry in Arizona.

As an alternative, we recommend providing a fixed budget on an annual basis for the residential incentive program. By fixing the annual incentive budget in advance, the number of systems within each of the latter incentive steps can be increased, thus growing the residential solar industry (in terms of numbers of systems and MW installed) while continuing to use a declining-scale incentive to drive the costs of solar downward. It would be unfortunate for Arizona's residential solar industry to be hampered with a fixed and inflexible number of systems to be installed under this revised program in future years, thus hampering job growth and the economies of scale which drive cost reduction.

Our companies' experiences in other residential markets also compel us to note that an extremely critical element of any declining-scale residential incentive program is sufficient notice with respect to pending incentive step-downs, such that installers and others within the industry have high-quality information regarding capacity remaining in the current incentive step, and the capacity contained within applications under review. We respectfully ask the ACC to ensure that timely information regarding the capacity remaining in each incentive step be made via the <http://arizonagoessolar.org> website.

Proposal for Rapid Reservation Program

Our companies remain opposed to the proposed 'rapid reservation' program, whether it is offered at \$1.00 per watt or any other reduced rebate level. While we appreciate and understand the need to utilize ratepayer funding as efficiently as possible, we believe that implementing a rapid reservation incentive in addition to the existing declining-scale incentive will only serve to increase turbulence in the residential solar arena, making it more difficult for companies to project future system costs, capacity remaining in any given incentive level step, and when customers are likely to receive rebates after submitting applications. The residential solar market in Arizona is today extremely competitive, and has some of the lowest installed costs in the nation. There is no reason to believe that the declining-scale residential incentives currently being considered by the ACC will not continue to drive the cost of solar down for residential customers, while providing sufficient market transparency and allowing the market to determine (by virtue of the declining-scale) the most appropriate level of incentives which drives consumer demand and utilizes ratepayer funds in a sustainable and responsible manner.

In conclusion, we view any rapid reservation program as having a deleterious effect on market transparency, not entirely necessary for cost reduction, and being yet another variable in a 2011 solar market which is already facing significant unpredictability due to, among other factors, the expiring Sec. 1603 Treasury Grant Program and reduced levels of ARRA funding.

Pilot Feed-in-Tariff Program

Our companies applaud both the ACC's and utilities' efforts to implement pilot feed-in-tariff programs. We agree wholeheartedly that properly structured feed-in-tariff programs can be extremely effective in putting 'steel in the ground' quickly and efficiently and thus allow Arizona to meet its growing demand for electricity with renewable energy generation. Moreover, experience with feed-in-tariff programs in other states and nations demonstrate that they can be useful in avoiding costly transmission upgrades, and make renewable energy a realistic possibility for certain entities which are unable to use other existing incentives due to, among other factors, non-profit status or lack of tax liability. We appreciate as well the concern for both the rate-setting and the overall capacity of the pilot programs. Establishing rates which

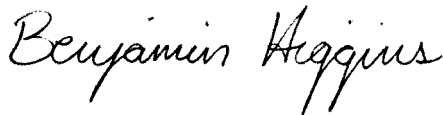
November 9, 2010

both drive demand and keep the program available for an extended period of time has proven a challenge in many areas. Consequently, for many of these same programs, overall MW capacity has been reached very quickly. For these reasons, establishing these critical elements of the program correctly will be important for the pilots' ultimate success.

With that said, we remain concerned about the requirement within the TEP pilot feed-in-tariff program stating that "[t]he participant can own, lease, or have other access to the appropriate site as long as the energy produced can bypass local loads, flowing directly into the grid." Clarity is needed with respect to this matter. Such a requirement – not seen in other feed-in-tariff programs – seems contrary to a goal of locating generation facilities near electricity consumers and avoiding grid upgrades. Furthermore, we are curious as to how this 'bypass' is to be accomplished from a technical and engineering standpoint. We understand of course, that feed-in-tariff participants are not net-metered in a traditional sense, and that the generation capacity of systems participating in a feed-in-tariff program is not generally tied to on-site usage, but we feel that a requirement that none of the electricity produced may be used on-site may have adverse unintended consequences, and deserves further consideration and/or clarification.

Again, Mainstream Energy Corp., REC Solar, Inc., and AEE Solar, Inc. appreciate the opportunity to submit these comments, and we look forward to working with the Commission and APS to allow the company to meet compliance targets while building a robust and sustainable solar market in Arizona. Thank you for your consideration, and should you or your staff have any questions regarding these matters, please do not hesitate to contact me at (916) 281-8699.

Sincerely,

A handwritten signature in cursive script that reads "Benjamin Higgins".

Benjamin L. Higgins
Director of Government Affairs